City of Falls Church
Economic Development Authority
FINAL Meeting Minutes
Tuesday, April 3, 2007 – 6:30 p.m.
Training Room
Level G, City Hall

I. Call to Order

David Tarter started the meeting/Developer Forum at 6:40 p.m.

EDA Board Members: David Tarter, Barry Buschow, A.C. Miller

EDO staff: Becky Witsman, Lovey Testa

Excused: Ed Saltzberg (EDA), Warren Cohen (EDA), Bob Butchko (EDA), Rick Goff (ED staff)

Absent: Bruce Swenson (EDA)

Public: Melissa Bondi, Coalition for Smarter Growth; Mark Silverwood, Silverwood Associates, Inc.; Walter Webdale, AHC Inc.; Pam Doran, City of Falls Church Housing and Human Services (HHS); Dana Lewis, HHS staff; Neville Sinclair, HHS staff; Paul Barkley, Paul Barkley/FAIA; Dani Lutz, City of Falls Church Department of Environmental Services; Carol Jackson, Falls Church Housing Corporation; Howard Herman, City of Falls Church Department of Community Services; Phil Duncan, citizen; Nick Benton, Falls Church News Press.

II. Developers Forum on Affordable Housing

David Tarter introduced the guest speakers: Melissa Bondi, Mark Silverwood, and Walter Webdale. John McClain, Senior Fellow, George Mason University Center for Regional Analysis, was unable to attend. Mr. Tarter also asked the audience to introduce themselves.

Ms. Bondi started by clarifying that she is still the Chairman of the volunteer housing position with the Arlington County Board. She reviews recommendations from non-profit and for-profit developers, and works on the issue of sustainable development in regards to affordable housing. Ms. Bondi said she is not a developer. She resides in Clarendon, and was actively involved in the redevelopment of 10 blocks in the area. Ms. Bondi said that development in Arlington is high-paced. She briefly discussed what affordable housing is, e.g., infrastructure, determinant income, federal and state parameters, etc. As a community, Arlington has set goals and targets for affordable housing. The county reports regularly on the status of affordable housing projects and the issues involved with it. She added that the community has learned that while they should demand value, they should be flexible with their expectations.

Ms. Bondi started her PowerPoint presentation by saying that Arlington County had a vision in the 1960s for transit-oriented development that would concentrate around the Metrorail stations. Developers would provide community benefits in exchange for additional height, density, and flexible use. Affordable housing benefits were negotiated on a case-by-case basis, where bonus densities and heights were offered for on-site affordable units. The county contributes tax revenue to create a revolving loan fund called AHIF (Affordable Housing Investment Fund).

Over time, the issue of affordable housing became critical because longtime residents could no longer afford to live in Arlington. Employers, including the county, had difficulty because they could not recruit and retain workers, which was a concern for economic development and retailers. The county realized that affordable housing is a more valuable community benefit and therefore adjusted its guidance on affordable housing benefits to meet the greater demand for redevelopment.

Ms. Bondi further said that Arlington County made sure the affordable housing element of community benefits became larger and a more important part of their negotiations. It also contributed more resources to AHIF, which essentially benefited the non-profits. These measures resulted in more development and more housing. Thereafter, Arlington adjusted its guidance on affordable housing benefits in site plans to meet more demand for redevelopment. However, in 2004, a property owner filed a lawsuit against the county. All parties involved then attempted to arrive to an agreement, rather than fight the issue in the General Assembly. This resulted in a 2005 Roundtable that brought together developers, real estate attorneys, county board members, and citizen volunteers. The intense process led to a compromise agreement, which was adopted into local ordinance in December 2005, and signed into state law in June 2006.

The compromise agreement made the process predictable and quantifiable for developers. It was also flexible because it provided multiple options and it generated resources. The deal was designed to be market-neutral, so that the ordinance should not affect what the developer would normally do. The 2005 Ordinance applies to all site plan/special exceptions above 1.0 FAR. It also uses the “chocolate cake” analogy to ensure fairness. This means that the government defines the appropriate levels of housing contributions, and the developer chooses the method to meet that contribution.

Mark Silverwood’s presentation focused on the numbers driving development in the Washington D.C. Metro Area. Mr. Silverwood observed that in the recent past several jurisdictions have made development a “game of numbers”, and the federal government stopped building HUD housing, and instituted a new program called LIHTC (Low Income Housing Tax Credit). He said that developers compete with each other annually for projects, and whoever wins would receive tax credits. They try to sell these tax credits to syndicators or insurance companies. These projects must be affordable for 30 years.

Mr. Silverwood said that there are two things that will allow the development of affordable housing: subsidy (money) and political will. He then proceeded to cite some examples from his PowerPoint presentation of some acquisitions made by his company and the renovation costs associated with each property. One of the examples he showed was the Monterrey Apartments at Greenbriar Street in Arlington. His company bought apartment buildings with 152 units that were built in the 1940s. They demolished 43 units in two buildings, and did some gut renovation to 109 units so they can be affordable rentals. His company also rebuilt from the ground up a condominium building with 96 new units, 10 of which are affordable units. Today, the Monterrey offers completely renovated units from floor to ceiling, a new playground, considerable green space, a business center, etc.

He also discussed the complicated multi-layered levels of financing required for the conversion of some of these projects, e.g., SPARC funds, VHDA taxable bonds, Arlington County AHIF, etc. With SPARC financing, for example, you get a mortgage for 3.85 percent, and then you give a 120-day notice to tenants currently living the in the building. The developers do a tenant survey before and during the development process. After this survey, they will inform the tenant if the latter is eligible or not.

Mr. Silverwood added that his company even gave some of the buildings to be torn down to the Arlington and Falls Church Fire Department to use for their life-saving drills.

They did a "bump out" to some end units, which was essentially knocking out the closet and hallway, adding 400 square feet to these units.

All units are the same in terms of appearance, appliances and amenities. A one-bedroom affordable unit costs around $135,000; whereas the market rate unit is valued at $295,000. A two-bedroom unit costs $155,000; the market rate is $380,000. Interested individuals must be qualified to occupy these affordable dwelling units, i.e., must be 60 percent of median household income or less. If they wish to sell after a few years, they must also sell to another 60 or less percent earner. Mr. Silverwood said that their typical retention rate is between 30 to 35 percent, since people do not want to stay during the construction period.

Walter Webdale distributed AHC Inc.'s 2006 annual report, with an insert entitled, "How Market-Rate and Affordable Multifamily Rental Properties Are Acquired." Mr. Webdale explained how AHC receives funding from the county, and that they do not receive profit returns on investments. Donations would go to the residents' services program.

By referring to said insert, Mr. Webdale showed the competitive differences between a seller considering a purchase offer by a REIT (Real Estate Investment Trust) or AHC Inc. The difference lies in the Acquisition Phase, particularly after the physical inspection of the property. With a REIT, the documents are prepared and finances are secured for closing in a span of 15 days. The property would be acquired after 30-45 days. With AHC, one must go through a process of public financing, which means meeting with county staff, applying for county loans, tax credits, etc., and attending public meetings. The property would be acquired between 90-120 days. Mr. Webdale added that a major factor in using AHC is the local leadership willingness to provide adequate public financing for affordable dwelling units.

A.C. Miller asked how AHC wins a deal against the REIT. Mr. Webdale replied that it sometimes has a lot to do with salesmanship. Mr. Miller then asked if there are incentives for sellers. Mr. Webdale said that they can give some incentives, which would be determined during the process of appraisal.

David Tarter inquired if the City of Falls Church has in place the tools needed for development or redevelopment. Mr. Webdale said AHC generally requires public funds to provide a $60,000 to $70,000 subsidy per unit. In addition, the City must be willing to provide density and height bonuses, and have ordinances that allow flexibility on to setbacks to maximize development. Mr. Silverwood also said that unused AHIF funds in Arlington go directly back to AHIF. Ms. Bondi added that the fiscal allocation they currently get is now $4.4 million, and they also receive repayments. The annual allocation is just part of the resources available. They are expecting to see sizable payments in some of the projects in the county, which will be put back into the AHIF fund. The average cost per unit is currently $70,000 to $80,000 per unit. Mr. Webdale noted that the City of Alexandria floated an affordable housing bond issue.

Ms. Bondi talked about the redevelopment of a historic neighborhood, southwest of Ballston. The neighborhood was a 1930s-style apartment district with a historic garden. In late 2005-early 2006, a developer informed Arlington County that they wanted to redevelop the area. The developer would have to deal with certain issues, such as the zoning of the property. There was an inherent market incentive to sell. The county worked collaboratively with the developer, and by July 2006, the county and the developer arrived to an MOU (Memorandum of Understanding) that agreed they would go through a Special Exception process and plan the big picture in order to address the community's issues: no fewer than 300 ADUs; general community preservation; ensure that redevelopment was historically sensitive; and make sure the developer gets their money back.

Ms. Bondi said that there was no shortage of meetings on this matter. Even though there was no comprehensive plan, it was always understood that it was going to be a local historic preservation district. She also noted that the developer actually did not want to build tall buildings, so the county worked out a deal with the developer. They would use the low income tax credit program, and they looked at additional subsidies to accommodate the 60 percent income requirement. Ms. Bondi said the county is investing a total of $40 million to $60 million.

Lindy Hockenberry inquired about "buy downs". Ms. Bondi said that these come from county-allocated funds; the subsidy goes to the residents.

Ms. Bondi also said that Arlington County is seeing more projects go from condominiums to high-end rentals, and even from condominiums to hotels. On the other hand, the county is also seeing projects approved, but not breaking ground. As the term implies, market-rate affordable housing expands and contracts with the market. Ms. Bondi added that banks are always most conservative. They are risk-averse, and are always the last to the table.

Ms. Hockenberry suggested that the EDA should bring together Housing and Human Services staff and the Housing Corporation to learn more about the City's own programs for affordable housing. She said that the city needs a knowledgeable group to support its own programs, so that the EDA can work with Council and other staff in the future on this particular matter.

Mr. Miller asked if the City is doing the same things as Arlington County has done. Pam Doran replied that they are recommending doing the same things, and that they are also looking for political will, zoning flexibility, etc. Ms. Bondi said that at the state level, the real interest is in creating a state-wide trust fund, where the state would match funds with localities that have their own funds.

After some other informal comments, Mr. Tarter announced the end of the Developer Forum at 8:15 p.m.

III. Petitions from the Public (5 minutes per petitioner) - None

IV. Petitions from the Board (5 minutes per petitioner) - None

V. Approval of March 2007 Minutes

Due to a lack of quorum, the EDA board members decided it would be best to postpone the approval of the March minutes until the next meeting in May.

VI. New Business - None

VII. Old Business - None

VIII. Staff Reports

Becky Witsman mentioned that there is an office building for sale at 360 South Washington. The building has been primarily vacant for two years. The owner has had insufficient resources to invest in improvements to the building. The owner also owes the City a considerable amount of overdue real estate tax. The property and building is valued at $3.3 million.

Barry Buschow wanted to know more about the updates on the Post Office, particularly on how to address the impending distribution of mail. Ms. Witsman said that staff is working with the Post Office representatives to find another location for their retail component and distribution center. In the short term and in the worst possible case, they may have to load/unload temporarily in Broad Street, although in the long-term, they will need to find another place for their distribution operations. Ms. Witsman also pointed out that EDO staff received a letter from one of the Post Office representatives yesterday, informing the City that they have extended their solicitation until April 20th. Mr. Buschow asked if their long-term lease with the city was breakable. Ms. Witsman replied it is not. Ms. Witsman said that there are viable places in the City for the distribution and retail; it is a question of timing and cost.

a. **Development Projects**
b. **Business Assistance Activities**
c. **Upcoming Meetings**

Mr. Tarter announced that the guest speaker for next month's Developers Forum is Mr. Jim Snyder, a retired Planner from Arlington County.

IX. EDA Member Reports - None

IX. Other Business - None

X. **Adjournment –** The EDA meeting ended at 8:50 p.m.